Texas Water Development Board
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TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Todd Chenoweth, Interim General Counsel

FROM: Jessica Zuba, Deputy Executive Administrator
Tom Entsminger, Program Administration Coordinator

DATE: November 30, 2016

SUBJECT: State Water Implementation Fund for Texas
2017 Funding Cycle

ACTION REQUESTED

No action is required of the Board. This is a briefing and discussion on the preliminary structure and proposed timeline for the 2017 funding cycle of the State Water Implementation Fund for Texas (SWIFT), referred herein as the SWIFT program.

BACKGROUND

In 2013, the 83rd Texas Legislature passed House Bill 4 and Senate Joint Resolution 1, providing for the creation of the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT). In addition, House Bill 1025 authorized a one-time, $2 billion supplemental appropriation from the state's Economic Stabilization Fund to the SWIFT, approved by voters through Proposition 6 on November 5, 2013. This investment is designed to support approximately $27 billion in funding for water supply projects over the next 50 years to ensure that Texas communities have adequate supplies of water during drought.

A total of 79 eligible abridged applications were received in the 2015 and 2016 funding cycles, resulting in a final commitment of over $4.5 billion to address 45 recommended water management strategies.

SWIFT PROPOSED FINANCING STRUCTURE FOR 2017

Based on analysis of program capacity, which included using a strategic planning model, the Executive Administrator has prepared recommendations for the 2017 funding cycle. It is intended that the strategic planning model will continue to be analyzed and updated on an ongoing basis to reflect current market conditions, committed projects, and demand as the program matures.

Taxable Adjustment: In the first two SWIFT funding cycles, tax-exempt and taxable financings received the same percentage reduction in interest rate subsidies. Subsidies represent a percentage off the cost of funds and because taxable rates are higher than tax-exempt, taxable financings received deeper interest rate discounts. This practice resulted in higher draws from the SWIFT funds for taxable loans. The draws are transferred to SWIRFT and used to fund the difference between interest rate subsidies/payment deferrals and borrower repayments. Similar to the different levels of subsidy for loan terms, it is proposed that the 2017 funding cycle be adjusted to subsidy levels specifically for taxable entities so that the necessary draw from the SWIFT is relatively the same, regardless of the tax status of the entity.

Rural and Agricultural: The SWIFT legislation directed at least 10% of the utilized funds for rural and agriculture water conservation projects in every five year planning period. With one funding cycle into the current planning period, rural and agriculture funding accounts for approximately 1.07%, representing $8.1 million.

To further assist rural projects, the recommendations for the 2017 cycle include additional subsidy levels for communities with a population of 10,000 or less and that are located outside the extraterritorial jurisdiction of a city with a population of 500,000 or greater. Entities that meet these criteria may now receive a 50% interest rate subsidy, the maximum allowable by law, for a 20 year low-interest loan; adjusted thereafter for longer terms.

To further assist agriculture, the recommendations for the 2017 cycle also include additional subsidy levels for all projects meeting the definition of agricultural water conservation or irrigation project under the SWIFT program. Entities with agricultural projects may now receive a 50% interest rate subsidy for a 20 year low-interest loan; adjusted thereafter for longer terms.

Rural and agriculture subsidies are eligible for multi-year commitments and once committed, subsidy levels are guaranteed for five funding cycles. Continuing in the TWDB's practice, subsidies offered for new commitments will be reviewed annually.

Funding Capacity: The structure outlined below is recommended for utilization in the 2017 SWIFT funding cycle, which is proposed to open on December 1, 2016. These funding targets take into consideration multi-year commitments from the previous funding cycles and adjust subsidy levels based on modeling analysis.

Funding Targets

- 2017 Program Funding Amount - $500,000,000
- Existing Multi-year Commitments - <u>$973,035,000</u>
- Estimated Total Funding Target - $1,473,035,000

Proposed – Interest Rates and Terms for New Commitments
The following interest rate subsidies will allow the applicants to receive relatively the same savings for each structure while the draw from the SWIFT for each structure will also be relatively the same. This compromise allows the applicants to still achieve savings while maintaining the integrity of the SWIFT corpus.

Low-Interest Loans

	Low-Interest Loans		Subsidized Rural/Agriculture	
Term	**Tax-Exempt**	**Taxable**	**Tax-Exempt**	**Taxable**
20 Years	35%	28%	50%	40%
21-25 Years	25%	20%	33.5%	27%
26-30 Years	20%	16%	26.15%	21.5%

Deferred Loans (No changes from previous cycle)
- Loan Deferral of up to 8 years
- Loan Terms up to 30 years
- No Additional Interest Rate Subsidy

Board Participation (No changes from previous cycle)
- No Additional Interest Rate Subsidy

Multi-Year Loans
- Continue offering the multi-year financing option
- Once committed, subsidies are locked in for five funding cycles
- First year of the multi-year request must include funds to be closed.

Interest Rates will be established based upon the final TWDB cost of funds.

In order to retain flexibility in the administration and active management of the SWIFT program and according to rules, final recommendations will be made during the prioritization process. This approach ensures that the present funding cycle's proposed projects are considered when analyzing program capacity. Final determinations of capacity and rate structure will remain at the Board's discretion. By rule, the Board must establish these items at prioritization.

<u>ABRIDGED APPLICATION, APPLICATION, AND PROCEDURES UPDATES</u>
The Executive Administrator's staff reviews SWIFT internal operating procedures in preparation for each new funding cycle. Updates for 2017 include revisions to the abridged application to facilitate timely and efficient staff reviews, as well as improvements to the existing SWIFT operating procedures in response to recommendations made by the State Auditor's Office in their August 2016 audit report. The procedures developed for the 2017 funding cycle address all recommendations made in the report, including an increased focus on peer review throughout the prioritization process.

TIMELINE
The proposed timeline for the 2017 SWIFT funding cycle:

December 1, 2016	Abridged application period begins
February 3, 2017	Abridged applications due
Spring 2017	Board action: • Consider prioritization • Identify amount of funds available by category • Establish financing structure and subsidy terms
	Invitations extended to submit applications for financial assistance
Summer 2017	Entities submit complete applications within 30 days of prioritization
	Board considers and approves applications; authorizes TWDB bond sale
Fall 2017	TWDB bond sale
Winter 2017	TWDB bond closing and borrower loan closings

SUMMARY
Based on discussions with the Board, the above information will be posted to the TWDB website for our customers' use. Outreach efforts will commence based on this preliminary information and updated as the application process is underway.